

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERMANENT ADDITION OF USPS CONNECT
LOCAL MAIL PRICE CATEGORY TO THE MARKET
DOMINANT PRODUCT LIST

Docket No. MC2023-12

**UNITED STATES POSTAL SERVICE REQUEST TO CONVERT
USPS CONNECT LOCAL MAIL TO A PERMANENT OFFERING**
(October 11, 2022)

Pursuant to 39 U.S.C. § 3642 and 39 C.F.R. § 3045.18, the United States Postal Service hereby requests to convert the experimental product USPS Connect™ Local Mail into a permanent offering on the Mail Classification Schedule, effective January 22, 2023.

On November 10, 2021, the Postal Service filed a notice in Docket No. MT2022-1 announcing its intent to conduct a market test of an experimental product called USPS Connect™ Local Mail and demonstrated that the market test would comply with applicable legal requirements. The Commission found that the market test met the requirements of 39 U.S.C. § 3641 and 39 C.F.R. part 3045 and authorized the market test to proceed in Order No. 6080 on January 4, 2022.

The Postal Service initially introduced its test of USPS Connect™ Local Mail in Texas to align with its nationwide rollout of the corresponding packages product, USPS Connect™ Local. By the end of the second quarter, which ended March 31, 2022, USPS Connect™ Local Mail was offered as a market test product in 11 states. Another 16 states, plus Washington, D.C., were added in the third quarter; 23 more were added

in the fourth quarter. Once the initial phased national rollout was complete, USPS Connect™ Local Mail was offered in all 50 states and the District of Columbia.

Now that the market test has proved successful, the Postal Service has determined to add USPS Connect™ Local Mail into the Mail Classification Schedule as a price category under section 1115 (Market Dominant Products: First-Class Mail: First-Class Mail Flats). As in the market test phase, USPS Connect™ Local Mail will provide customers same-day or next-day options for local delivery of documents. Customers using USPS Connect™ Local Mail will be able to enter First-Class Mail mailpieces close to their final destinations at certain designated Destination Delivery Units (DDUs) or equivalent facilities or, in select locations, will be able to arrange pick-up of mailpieces by their USPS carrier in line-of-travel. Documents accepted by the Postal Service at participating DDUs by 7 a.m. each day will be eligible for same-day delivery, while mailpieces received after 7 a.m. at participating DDUs or by carrier pick-up in line-of-travel will be delivered the following day. Local induction has simplified implementation throughout the market test and allows the Postal Service to avoid end-to-end transportation costs, making it possible to offer the product for a flat price of \$2.95 while covering attributable costs associated with the product. The Postal Service views USPS Connect™ Local Mail, part of the USPS Connect™ suite of products, as a key component of the core mission of our *Delivering for America* strategic plan. USPS Connect™ Local Mail was designed for locally-focused businesses such as law firms, real estate-related companies, and medical offices, and offers value to these businesses by giving them access to the Postal Service's existing delivery infrastructure.

Along with the request to add USPS Connect™ Local Mail to the Market Dominant Product List as a price category within First-Class Mail Flats, the Postal Service intends to file changes to accommodate any needed updates to the service performance measurement plan and service standards. The measurement plan will be based on Intelligent Mail Parcel Barcodes (IMpbs), which are currently used for certified mail and certain package services. If necessary, the Postal Service intends to update the First-Class Mail service standards under 39 C.F.R. § 121.1 to accommodate the same-day and next-day delivery targets that accompany this price category.

39 U.S.C. § 3642 and the Commission's implementing rules at 39 C.F.R. Part 3045.18 set forth the conditions for adding a non-experimental product based on an experimental product to the product list. As explained below, USPS Connect™ Local Mail satisfies all of these conditions:

Compliance with 39 C.F.R. § 3045.18(b) Requirements

As required by subsections (b)(1)-(3) of section 3045.18, USPS Connect™ Local Mail will offer the same service as the current experimental product described as USPS Connect™ Local Mail in Docket No. MT2022-1, with the same distinct costs and market characteristics, and is based on the data collected from the current market test.

Compliance with 39 C.F.R. § 3045.18(c) Requirements

Pursuant to subsection (c) of section 3045.18, the market test and docket number that the proposed non-experimental product or price category is based on is named USPS Connect™ Local Mail and can be found in Docket No. MT2022-1. The relationship between the proposed non-experimental product and market test is one-to-

one; this Request seeks to convert the experimental product at the heart of this market test to the permanent product list.

The Postal Service intends to add USPS Connect™ Local Mail to the Flats product of the First-Class Mail class in the Market Dominant section of the Mail Classification Schedule, with a price point of \$2.95 for a flat- or letter-sized mailpiece with a maximum length of 15 inches, a maximum height of 12 inches, a maximum thickness of $\frac{3}{4}$ inch, and a maximum weight of 13 ounces, as set forth in Attachment A to this Request.

As a general rule, new offerings do not have price cap implications, and this is true whether or not the offering was the subject of a market test. As a new offering, USPS Connect™ Local Mail lacks volume history and billing determinants that can be used to calculate a price cap effect, and the Commission does not consider market test data in calculating billing determinants. See, e.g., Docket No. MC2012-31, Adding EDDM-Retail to the Product List, Order No. 1460 (Order Approving Addition of Postal Services to the Mail Classification Schedule Product Lists) (increase from market test price to price charged when product added to Market Dominant list is not a rate change subject to 39 U.S.C. 3622(d)).

Pursuant to subsection (c)(3) of section 3045.18, the Postal Service assumes that the market for USPS Connect™ Local Mail that has persisted over the course of the market test will continue to grow into the permanent product phase. The Commission's implementing rules require the Postal Service to calculate the total revenue received by the Postal Service from the market test for each fiscal year the market test has been in operation and provide supporting documentation. At the close

of FY 2022, Quarter 2, the USPS Connect™ Local Mail market test, then limited to 11 states, received \$191.75 in revenue. At the close of FY 2022, Quarter 3, the most recent quarter for which data has been reported, the USPS Connect™ Local Mail market test, then expanded to 27 states, received another \$908.60 in revenue. Through September 9, 2022, USPS Connect™ Local Mail accounted for over 17,500 mailpieces delivered and over \$51,000 in revenue.

Pursuant to subsection (c)(4) of section 3045.18, the Postal Service has included all data collection reports filed over the course of the market test in Attachment B.

Pursuant to subsection (c)(5) of section 3045.18, the product-specific costs associated with the development of the market test total \$577,837 (a cumulative figure, which includes costs related to receiving and delivering mail during the first two quarters of the market test). As shown below, at the current price point of \$2.95 USPS Connect™ Local Mail covers its attributable costs and provides a contribution to institutional costs, and the continuation of the offering as a permanent price category will allow the Postal Service to recoup its development costs. In addition, attributable costs have been relatively stable from quarter to quarter. See Table 1 for a quantification of the costs involved in this figure.

Table 1

Description	Individual Costs	# of Items	Total Cost
Developmental Costs			
Envelope Purchases	\$0.14	2,250,000	\$315,000
Administrative Program Labor	N/A	N/A	\$262,084
Attributable			
Total cost of receiving and delivering	\$2.02	373	\$753
Total			\$577,837

In light of all of the above, the Postal Service submits that USPS Connect™ Local Mail meets the criteria for converting a market test to permanent status. A copy of the Governors' resolution authorizing this request is included in Attachment C, pursuant to 39 CFR 3040.131(b), and a Statement of Supporting Justification from a postal official attesting to the factual information contained herein is included in Attachment D. To align with other IT programming changes, the Postal Service would like to implement this new permanent offering on January 22, 2023. In order to meet the deadline for programming updates and allow time for service standard changes, the Postal Service requests the Commission issues its final order no later than November 18, 2022.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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October 11, 2022

**ATTACHMENT A TO REQUEST
PROPOSED CHANGES TO THE MAIL CLASSIFICATION SCHEDULE**

Part A

Market Dominant Products

1000 MARKET DOMINANT PRODUCT LIST

FIRST-CLASS MAIL*

Single-Piece Letters/Postcards

Presorted Letters/Postcards

Flats

Outbound Single-Piece First-Class Mail International

Inbound Letter Post

* * * * *

1100 First-Class Mail

* * * * *

1115 Flats

1115.1 Size and Weight Limitations

Flats

	Length	Height	Thickness	Weight
Minimum	5 inches	3.5 inches	0.007 inch	none
and at least one dimension exceeds	11.5 inches	6.125 inches	0.25 inch	
Maximum	15 inches	12 inches	0.75 inch	13 ounces

Letter Shaped Mail Exceeding 3.5 Ounces subject to Flats pricing

	Length	Height	Thickness	Weight
Minimum	5 inches	3.5 inches	0.007 inch	>3.5 ounces
Maximum	11.5 inches	6.125 inches	0.25 inch	13 ounces

USPS Connect Local Mail

	<u>Length</u>	<u>Height</u>	<u>Thickness</u>	<u>Weight</u>
<u>Minimum</u>	<u>5 inches</u>	<u>3.5 inches</u>	<u>0.007 inch</u>	<u>none</u>

and at least one dimension exceeds	11.5 inches	6.125 inches	0.25 inch	
Maximum	15 inches	12 inches	0.75 inch	13 ounces

Parcels (Keys and Identification Devices)

	Length	Height	Thickness	Weight
Minimum	not applicable			none
Maximum	not applicable			2 pounds

1115.2 Minimum Volume Requirements

		Minimum Volume Requirements
Flats	Single-Piece	none
	Presorted	500 pieces per mailing
	Mixed ADC	500 pieces per mailing
	ADC	500 pieces per mailing
	3-Digit	500 pieces per mailing
	5-Digit	500 pieces per mailing
	USPS Connect Local Mail	none
Keys and Identification Devices		none

1115.3 Price Categories

The following price categories are available for the product specified in this section:

- Automation
 - 5-Digit
 - 3-Digit
 - ADC
 - Mixed ADC
- Presorted

- Single-Piece
- Move Update Assessment Charge
- Flat Round-Trip Mailer
- USPS Connect Local Mail – Same day or next day delivery within a specified service area available to mailers who use specifically authorized postage payment methods and, pursuant to a customer agreement on file with the Postal Service, either enter flats at a designated destination delivery unit (or other equivalent facility) or use carrier line-of-travel pickup.
- Keys and Identification Devices—Payment is due on delivery unless an active Business Reply Mail advance deposit account is used.

1115.4 Optional Features

The following additional postal services may be available in conjunction with the product specified in this section:

- Ancillary Services (1505)
 - Address Correction Service (1505.1)
 - Business Reply Mail (1505.3)
 - Certified Mail (1505.5)
 - Certificate of Mailing (1505.6)
 - Collect on Delivery (1505.7)
 - Insurance (1505.9)
 - Registered Mail (1505.12)
 - Return Receipt (1505.13)
 - Special Handling (1505.18)
- Competitive Ancillary Services (2645)
 - Package Intercept Service (2645.2)
- Full-service Intelligent Mail option: Automation Flats Only
- Seamless Incentive: Automation Flats Only
- Tactile, Sensory, and Interactive Mailpiece Engagement Promotion (February 1, 2022 to July 31, 2022)
- Emerging and Advanced Technology Promotion (March 1, 2022 to August 31, 2022)
- Earned Value Reply Mail Promotion (April 1, 2022 to June 30, 2022)
- Informed Delivery Promotion (August 1, 2022 to December 31, 2022)

1115.5 Prices

Automation Flats

Maximum Weight (ounces)	5-Digit (\$)	3-Digit (\$)	ADC (\$)	Mixed ADC (\$)
1	0.555	0.730	0.783	0.891
2	0.755	0.930	0.983	1.091
3	0.955	1.130	1.183	1.291
4	1.155	1.330	1.383	1.491
5	1.355	1.530	1.583	1.691
6	1.555	1.730	1.783	1.891
7	1.755	1.930	1.983	2.091
8	1.955	2.130	2.183	2.291
9	2.155	2.330	2.383	2.491
10	2.355	2.530	2.583	2.691
11	2.555	2.730	2.783	2.891
12	2.755	2.930	2.983	3.091
13	2.955	3.130	3.183	3.291

Presorted Flats

Maximum Weight (ounces)	Presorted (\$)
1	1.000
2	1.200
3	1.400
4	1.600
5	1.800
6	2.000
7	2.200
8	2.400
9	2.600
10	2.800
11	3.000
12	3.200
13	3.400

Single-Piece Flats¹

Maximum Weight (ounces)	Single-Piece (\$)
1	1.160
2	1.360
3	1.560
4	1.760
5	1.960
6	2.160
7	2.360
8	2.560
9	2.760
10	2.960
11	3.160
12	3.360
13	3.560

Notes

1. A handling charge of \$0.01 per piece applies to foreign-origin, inbound direct entry mail tendered by foreign postal operators, subject to the terms of an authorization arrangement.

USPS Connect Local Mail

<u>Maximum Weight (ounces)</u>	<u>USPS Connect Local Mail (\$)</u>
<u>13</u>	<u>2.95</u>

Keys and Identification Devices

Maximum Weight (ounces)	Keys and Identification Devices (\$)
1	3.75
2	3.95
3	4.15
4	4.35
5	4.55
6	4.75
7	4.95
8	5.15
9	5.35
10	5.55
11	5.75
12	5.95
13	6.15
1 (pound)	Priority Mail Retail Zone 4 postage plus 0.92
2 (pounds)	Priority Mail Retail Zone 4 postage plus 0.92

Move Update Assessment Charge

Add \$0.08 per assessed piece, for mailpieces that fail Move Update verification under the Address Quality Census Measurement and Assessment Process, with more than 0.5 percent for mailpieces submitted by a mailer in a calendar month having COA errors, and which cannot demonstrate compliance with Move Update requirements.

Flat Round-Trip Mailer

- a. Flat Round-Trip Mailer service allows a mailer to send a flat-shaped mailpiece to a subscriber at the applicable one (1) ounce Machinable Letter price and pay postage for the return of the contents of that mailpiece at the one (1) ounce Single-Piece Machinable Letter price.

- b. A mailer may either prepay postage for the return mailpiece by using Permit Reply Mail or only pay for mailpieces actually returned by using Business Reply Mail.
- c. Qualifying pieces must contain a standard 12 cm or smaller optical disc.
- d. Pieces weighing no more than two (2) ounces qualify for the one (1) ounce price.
- e. Returned pieces must be picked up by the mailer at designated Postal Service facilities.
- f. Flat Round-Trip Mailers are not subject to prices for:
 - (i) the Nonmachinable Letters price category of Presorted Letters/Postcards, or
 - (ii) the Single-Piece Nonmachinable Letters price category of Single-Piece Letters/Postcards.

Full-service Intelligent Mail Option

Subtract \$0.003 for each automation flat that complies with the requirements for the Full-service Intelligent Mail option.

Seamless Incentive

Subtract \$0.001 for each piece eligible for Seamless Acceptance and prepared under the Full-Service Intelligent Mail option.

Tactile, Sensory, and Interactive Mailpiece Engagement Promotion (February 1, 2022 to July 31, 2022)

Provide a four percent discount on the qualifying postage for First-Class Mail letters, postcards, and flats, and USPS Marketing Mail letters and flats that incorporate scent, sound, visual, textural, dimensional, or other qualifying enhancements. To receive the discount, the qualifying mail must be sent during the established program period by mailers that comply with the eligibility requirements of the program.

Emerging and Advanced Technology Promotion (March 1, 2022 to August 31, 2022)

Provide a two or three percent discount on the qualifying postage for First-Class Mail letters, postcards, and flats, and USPS Marketing Mail letters and flats that are sent during the established program period, and which either include affixed or embedded technology that allows the recipient to engage in a technological experience, or were automatically generated by the recipient's applicable online activities. Mailers will receive a discount based on the complexity of the

technology involved and its perceived benefit to the recipient. Qualifying mail utilizing technology with low barriers to entry will receive a two percent discount, while technology featuring high barriers to entry will receive a three percent discount. To receive the discount, mailers must comply with the eligibility requirements of the program.

Earned Value Reply Mail Promotion (April 1, 2022 to June 30, 2022)

Provide a \$0.02 per piece rebate for each qualifying Business Reply Mail, Courtesy Reply Mail, and Share Mail piece. Qualifying mailpieces must meet program requirements and be placed in the mailstream by the recipient and scanned during the program period. To receive the rebate, registered customers must have distributed a Business Reply Mail, Courtesy Reply Mail, or Share Mail card or envelope, and must comply with all other eligibility requirements of the program. Mailers who have satisfied the Earned Value promotion requirements may apply the credit toward future mailings of First-Class Mail cards, letters, and flats and USPS Marketing Mail letters and flats.

Informed Delivery Promotion (August 1, 2022 to December 31, 2022)

Provide a four percent discount on the qualifying postage for First-Class Mail automation letters, postcards, and flats, and USPS Marketing Mail automation letters and flats that are sent during the established program period, and which incorporate Informed Delivery campaigns as a component of their mailings. To receive the discount, mailers must comply with the eligibility requirements of the program.

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1800 Market Tests

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1804 USPS Connect Local Mail

Reference

Docket No. MT2022-1

PRC Order No. 6080, January 4, 2022

Expires

January 8, 2024

ATTACHMENT B TO REQUEST
MARKET TEST QUARTERLY DATA COLLECTION REPORTS

PRC REPORT FY22 Q2

PROGRAM: USPS Connect Local Mail Market Test

LAUNCH DATE FOR MARKET TEST: January 9, 2022

TIME PERIOD OF EVALUATION: January 9, 2022 through March 31, 2022 (includes nationwide data by Area)

DESCRIPTION: USPS Connect Local Mail is a First-Class Mail product focused on local document delivery that accepts payment using Click-N-Ship, requires customers to submit mailpieces at Destination Delivery Units (DDUs) or by carrier pick-up in line-of-travel (LOT), and offers same-day or next-day delivery to such customers.

METRICS:

1) Total USPS Connect Local Mail Revenues, Disaggregated by Geographic Area

USPS Connect Local Mail Revenues		
Geographic Area	Revenue	% Revenue
Atlantic	\$17.70	9.2%
Central	\$0.00	0.0%
Southern	\$174.05	90.8%
WestPac	\$0.00	0.0%
Total	\$191.75	100.0%

Source: Click-N-Ship, Informed Visibility

2) Total USPS Connect Local Mail Volume, Disaggregated by Geographic Area and Acceptance Method

USPS Connect Local Mail Volume				
Geographic Area	Volume	% Volume	Dropped-off	Picked-up
Atlantic	6	9.2%	6	0
Central	0	0.0%	0	0
Southern	59	90.8%	56	3
WestPac	0	0.0%	0	0
Total	65	100.0%	62	3

Source: Click-N-Ship, Informed Visibility

3) Attributable Costs Incurred by USPS Connect Local Mail

The total attributable costs related to the provision of USPS Connect Local Mail during the quarter equal \$138.04.

4) Administrative and Start-Up Costs

The administrative and start-up costs for USPS Connect Local Mail during the quarter equal \$531,584.

PRC REPORT FY22 Q3

PROGRAM: USPS Connect Local Mail Market Test

LAUNCH DATE FOR MARKET TEST: January 9, 2022

TIME PERIOD OF EVALUATION: April 1, 2022 through June 30, 2022 (includes nationwide data by Area)

DESCRIPTION: USPS Connect Local Mail is a First-Class Mail product focused on local document delivery that accepts payment using Click-N-Ship, requires customers to submit mailpieces at Destination Delivery Units (DDUs) or by carrier pick-up in line-of-travel (LOT), and offers same-day or next-day delivery to such customers.

METRICS:

1) Total USPS Connect Local Mail Revenues, Disaggregated by Geographic Area

USPS Connect Local Mail Revenues		
Geographic Area	Revenue	% Revenue
Atlantic	\$315.65	34.7%
Central	\$2.95	0.3%
Southern	\$188.80	20.8%
WestPac	\$401.20	44.2%
Total	\$908.60	100.0%

Source: Click N Ship, Informed Visibility

2) Total USPS Connect Local Mail Volume, Disaggregated by Geographic Area and Acceptance Method

USPS Connect Local Mail Volume				
Geographic Area	Volume	% Volume	Dropped-off	Picked-up
Atlantic	107	34.7%	100	7
Central	1	0.3%	1	0
Southern	64	20.8%	46	18
WestPac	136	44.2%	121	15
Total	308	100.0%	268	40

Source: Click N Ship, Informed Visibility

3) Attributable Costs Incurred by USPS Connect Local Mail

The total attributable costs related to the provision of USPS Connect Local Mail during the quarter equal \$634.38.

4) Administrative and Start-Up Costs

The administrative and start-up costs for USPS Connect Local Mail during the quarter equal \$45,500.

**ATTACHMENT C TO REQUEST
RESOLUTION OF THE GOVERNORS
OF THE UNITED STATES POSTAL SERVICE**

**RESOLUTION OF THE GOVERNORS
OF THE
UNITED STATES POSTAL SERVICE**

Resolution No. 22-6

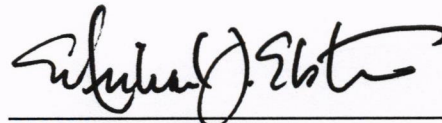
**Conversion of USPS Connect Local Mail Market Test
into a Permanent Offering Listed on the Mail Classification Schedule**

RESOLVED:

Pursuant to Section 3642 of Title 39, United States Code, the Postal Service shall file a request with the Postal Regulatory Commission to convert the USPS Connect Local Mail market test into a permanent offering listed on the mail classification schedule, with a price point of \$2.95 for an envelope up to 12" x 15", with thickness less than $\frac{3}{4}$ ".

Postal management is directed to provide the required public notice and to file with the Postal Regulatory Commission the mail classification changes, and other supporting documents, in accordance with Part 3045 of Title 39, Code of Federal Regulations.

The foregoing Resolution was adopted by the Governors, and takes effect, on October 4, 2022.



Michael J. Elston
Secretary of the Board of Governors

**ATTACHMENT D TO REQUEST
STATEMENT OF SUPPORTING JUSTIFICATION**

CERTIFICATION

I, Krista Becker, am the Director of Product Management for Mailing Services, United States Postal Service.

I have read and am familiar with the request of the United States Postal Service to convert the experimental product USPS Connect Local Mail into a permanent offering in the Mail Classification Schedule, Docket No. MC2023-12, and I attest to the accuracy of the factual information contained therein. I believe that the request is consistent with all applicable requirements and applicable criteria of chapter 36 of title 39 of the United States Code.

Dated October 11, 2022

Krista Becker

By: _____

Digitally signed by Krista
Becker
Date: 2022.10.11 13:38:05
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Krista Becker